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Dominican Republic Textile and Apparel Export Competitiveness

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Executive Summary

The Dominican Republic's apparel industry is facing many challenges at home and in the global economy. When global quotas are eliminated in January 2005, the country will lose an important shield from open competition in the United States, its main market for apparel exports. Open competition will substantially erode free zone apparel exports to the United States, resulting in lost jobs and falling income. The elimination of quotas alone is expected to reduce employment and shipments in the Dominican apparel industry by nearly one-third. At the same time, devaluation of the Dominican currency, the peso, has on balance had a further negative impact on Dominican producers' competitiveness. While the peso devaluation briefly improved cost competitiveness by lowering dollar wages, it also led to higher electricity costs and a rise in minimum wages that together will, according to our projections, reduce Dominican exports and employment in this sector by 10 percent.

Ratification and implementation of the free trade agreement negotiated between the United States, the Dominican Republic, and five Central American countries (the US-CAFTA-DR) could significantly assist Dominican producers in regaining ground in the U.S. market in the post-quota/post-peso devaluation global competitive environment. We project that the FTA could help keep employment in the apparel sector at close to 94,000—nearly 24,000 more workers than would be sustained in the absence of the FTA, given the intensified competitive environment that 2005 will bring. Dominican producers and workers could also benefit, albeit only slightly, if China revalues its currency by 10 percent. Such a change is projected to boost Dominican employment in the sector by another 3,000 jobs. Revaluation, however, would not stop China from becoming the preeminent supplier of the U.S. apparel market, as is widely expected.

Even under the optimal scenario for the Dominican Republic—implementation of the US-CAFTA-DR and *renminbi* revaluation—employment in the free zone apparel industry will still be nearly 20 percent lower in 2005, as compared to 2003. If higher energy costs are reversed or eliminated, Dominican producers could cut projected losses in half.

To mitigate the effects of quota elimination and improve the competitive position of Dominican apparel producers in the U.S. market, government policymakers should

- Implement the US-CAFTA-DR expeditiously, so that producers from the Dominican Republic will quickly benefit from the agreement's provisions; and
- Develop domestic policies such as wage increases in an integrated fashion that takes into account the overall impact on export competitiveness, productivity, and investment.

And apparel industry members should strive to

- Improve their competitiveness by focusing on fabric sourcing, full-package production, and rapid production and delivery; and
- Diversify exports into non-traditional products, such as footwear, electronic assembly, food processing, and value-added services.

No single effort will reverse the impact of quota elimination. Therefore, the Dominican Republic would do well to combine efforts in all areas.

1. Introduction

On January 1, 2005 the United States and the European Union will conclude a decade-long phase-out of textile and apparel quotas, ending nearly 45 years of trade regulation and relative stability in the industry. Having long been granted liberal access to the U.S. market, the Dominican Republic will see its margin of preference in that market erode. Meanwhile, low-cost suppliers, principally in Asia, will benefit from the elimination of quotas that have been constraining their exports to the U.S. market. More than half of the trade barriers that Asian countries face are the result of restrictive quotas. Tariffs on U.S. imports from Asia average 18.7 percent,[1] but the average tariff-equivalent of quotas constraining these imports is an additional 19.1 percent.[2] When quotas are eliminated, the Dominican Republic will encounter greater competition for the U.S. market and this is likely to curtail Dominican apparel exports and the jobs they support.

In a bid to improve their trade conditions, Costa Rica, Guatemala, Honduras, El Salvador, and Nicaragua—significant suppliers of textiles and apparel to the U.S. market—signed a free trade agreement with the United States in May 2004 (US-CAFTA). Three months later the Dominican Republic joined them to form the United States–Dominican Republic-Central American Free Trade Agreement (US-CAFTA-DR). The agreement

- Grants parties' exports permanent duty-free access to the U.S. market;
- Permits unlimited use of local and regional fabrics and yarns, encouraging local producers to move into textile production and thus boost the competitive advantage of firms in the region;
- Permits limited access to woven fabrics constructed in NAFTA countries, including Canada and Mexico;
- Permits unlimited use of extra-regional trims and buttons;[3] and

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[1] Average of the products the Dominican Republic exports; the overall U.S. average is 17 percent.
[2] Economists refer to the tariff equivalent of a quota as the export tax equivalent (ETE) of a quota because an export tax is levied before the import tax (tariff) is charged. The ETE is the level of duty that would restrict exports to the amount allowed by the quota.
[3] Although some restrictions still require the use of regionally constructed thread and waist bands.

- For a few products, permits unlimited use of third-country fabrics.

The simplicity of this agreement's rules of origin are in contrast to those of the Caribbean Basin Trade Preference Act (CBTPA), which grants qualifying apparel from the Caribbean Basin, including the Dominican Republic, duty-free access to the U.S. market through September 2008. The CBTPA rule of origin requires apparel to be constructed of U.S. fabrics and yarns[4] and limits the use of non-regional trims and buttons. The US-CAFTA-DR's rules are expected to give the region a competitive boost as quotas are eliminated in 2005.

But even as the agreement promises to boost the competitiveness of the Dominican Republic's textile and apparel industry, events in the local economy are threatening to erode it. The country's recent macroeconomic crisis has put additional pressure on the apparel sector that raises production costs, diminishes export competitiveness, and negatively affects potential investors' evaluations of return on investment. The possible revaluation of China's currency, particularly given China's proven strength in the textile and apparel industry, could also affect the competitiveness of the Dominican Republic's textile and apparel industry.

All of these factors are driving rapid change in the trade environment and will surely result in a world market quite different from the current one. Textile and apparel producers, for example, will face newly empowered buyers who will be reducing the number of producers with whom they work. Buyers will also seek producers who can provide value-added services and broad product lines. Producers in the Dominican Republic can do several things to meet these challenges, including clustering firms, improving design capabilities, handling all aspects of production including transportation and fabric sourcing, and ensuring efficient customs processes to meet the challenges of U.S. anti-terrorism programs.

In this report we examine elements of the trade environment that are and will be affecting the performance of the Dominican Republic's textile and apparel industry. In the following chapters we discuss quota elimination, macroeconomic crises—especially peso devaluation--the US-CAFTA-DR, and the potential revaluation of China's currency. Each chapter provides background on each element, presents assumptions underlying our analysis of available data, and presents estimates of the effects on export shipments and direct employment in the industry, focusing particularly on the country's free zones. We conclude by reviewing several strategies the Dominican Republic may pursue to improve competitiveness.

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[4] Current CBTPA rules permit knitting and dying in the Caribbean, subject to an annual cap. Woven fabric used in apparel certified for the elimination of duties must use fabric constructed in the United States and, in some cases, U.S. thread.

2. Quota Elimination

Quotas have governed trade in textiles and clothing for most of the past half century. Negotiated during the Uruguay Round and effective January 1995, the WTO's Agreement on Textiles and Clothing (ATC) is the basis for reintegrating textiles and apparel into the world trading system, which generally prohibits non-tariff barriers such as quotas. Under the ATC, quotas will be phased out over 10 years in four stages, ending on December 31, 2004 (Table 2-1).[5] Stages I and II had little effect on exporting or importing markets because quotas were removed mainly from products that had not been constrained by them; that is, imports were generally below quota. But Stage III is having substantial effects, as will Stage IV's liberalization of tariff lines accounting for 49 percent of trade, including the most restrictive quota categories. In fact, competition among exporters of textiles and apparel in developing countries is already intensifying.

Table 2-1
Stages of Textile and Apparel Quota Phase-out under the Agreement on Textiles and Clothing

Stage	Percent of U.S. Textile and Apparel Trade to be Freed of Quota*	Annual Increase in Growth Rates Permitted by Quotas (%)
I. 1995–1997	16	16
II. 1998–2001	17	25
III. 2002–2004	18	27
IV. 2005 (final)	49	No quotas left

**Based on 1990, imports by quantity*

SOURCE: U.S. Department of Commerce Office of Textiles and Apparel: http://otexa.ita.doc.gov.

While many countries and products are covered by the ATC quota system, only a small number are actually constrained by quotas because many countries, including the Dominican

[5] Quotas will remain in effect for a small number of non-WTO countries such as Vietnam. Trade remedies that may be used under certain circumstances, including dumping, subsidies, or market disruption, may take a quota-like form.

Republic, do not export enough to completely fill their quotas.[6] But these same countries and producers can expect a marked increase in competition from other countries and producers that have been constrained by quotas. To assess whether and how a given country will be affected by quota elimination in Stages III and IV, we must (1) examine product categories—especially textiles and apparel products that the Dominican Republic exports—and countries constrained by quotas; and then (2) examine major suppliers that have been kept out of developed country markets by the quota regime. This exercise allows us to make projections about the extent of disruption that Dominican producers and exporters will be likely to experience in a post-quota world.

Table 2-2 presents U.S. imports by major product group from quota-constrained and quota-unconstrained countries, including the Dominican Republic. According to 2003 data, 92 percent of the Dominican Republic's exports of textile products are in categories for which the United States imposes constraining quotas on other countries; we can consider these categories as subject to high risk of being affected by quota elimination (Figure 2-1). The remaining 8 percent are in categories for which the United States does not impose constraining quotas.[7]

The number of countries whose exports are constrained by U.S. quotas varies by product, with two countries facing constraining quotas on swimsuits, coveralls, and headwear, and 15 facing constraining quotas on cotton trousers.[8] Countries whose exports are constrained by U.S. quotas include China, Hong Kong, India, Pakistan, Bangladesh, Thailand, and Indonesia. More than 55 percent of the Dominican Republic's exports are in three categories for which quotas are the principal constraint on China, Hong Kong, and India exports: cotton trousers, cotton underwear, and knit shirts.

When producers in quota-constrained countries export, they often are required to obtain quota licenses, increasing the cost of their exports to a quota-constrained market such as the United States.[9] Calculated quota costs differ by product and country. Table 2-3 presents the average tariff-equivalent of quotas constraining China, Hong Kong, and India and the average most-favored nation (MFN) tariff paid by non-preferred suppliers, such as producers in Asia, for the products exported by the Dominican Republic.[10]

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[6] A quota is constraining if it is 85–90 percent filled. Complexities in the quota management system make it difficult to fill a quota completely (U.S.ITC 2002).

[7] These categories include body support garments and selected babies' clothes.

[8] U.S. quotas on knit shirts sometimes categorize T-shirts and tanks separately from other knit shirts. Quotas on non-T-shirts and non-tank shirts are significantly more restrictive than those on T-shirts and tank shirts.

[9] Although some producers do not bid on quota rights each year, they often have the opportunity to sell their rights, and so incur an opportunity cost if they do not use them to their full value. Calculating quota prices is an effective way to gauge the competitiveness of quota-constrained countries.

[10] China, Hong Kong, and India have public markets for purchasing quotas permits. Data from third parties were used for Indonesia, Cambodia, Bangladesh, Taiwan, and Pakistan (Andriamananjara 2004). Tariff equivalents of quotas are calculated as quota cost divided by export price minus quota cost. See Kathuria, Martin and Bhardwaj (2001) and United States International Trade Commission (2002).

Table 2-2
U.S. Apparel Imports Constrained and Unconstrained by Quotas, 2003

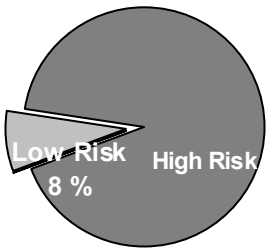
Product	Dominican Republic		Countries Quota-Constrained		Unconstrained U.S. Imports (US$ Million)
	Value (US$ Million)	Share (%)	No. of Countries	Value (US$ Million)	
Cotton trousers	670	32	15	3,229	7,476
Cotton underwear	312	15	4	169	1,977
Synthetic trousers	254	12	8	839	2,359
Knit shirts, including T-shirts, tanks shirts, and other knit shirts	203	10	13	3,183	7,462
Other synthetic apparel, including swimsuits, overalls, and headwear[a]	112	5	2	179	1,560
Other, including robes, nightwear, woven shirts, and products not listed elsewhere	407	19	22	6,736	18,622
Subtotal constrained categories	1,958	92	--	14,335	39,456
Unconstrained categories[b]	164	8	--	--	6,372
Total	2,122	100	25	14,.335	45,828

[a] *Figures do not match OTEXA statistics because part categories integrated before 2003 were recategorized as non-restrained .*

[b] *Primary products are brassieres and babies' garments.*

SOURCE: *Analysis by Nathan Associates Inc. Data from U.S. Department of Commerce Office of Textiles and Apparel (OTEXA).*

Figure 2-1
Dominican Republic Exports to the United States That Could Be Affected by Quota Elimination on January 1, 2005



SOURCE: *Analysis by Nathan Associates.*

Combined, the tariff equivalent of quotas and the tariffs are barriers to quota-constrained exporters. Put another way, the sum of these two is the "margin of preference" that Dominican Republic exporters currently enjoy in the U.S. market. Tariff equivalents of quotas vary from 12 percent on cotton T-shirts and tank shirts to more than 40 percent on knit cotton shirts and cotton trousers. The data illustrate that quotas on low-cost Asian products likely

generate half or more of the benefits that preferential access to the U.S. market provides to the Dominican Republic.

Table 2-3
Average Tariff Equivalents of Quotas and Tariffs for Selected Categories of U.S.-Imported Garments, 2003

Product	Average Tariff Equivalent of Import Quotas for China, Hong Kong, and India (%)	Weighted Average of MFN Tariff (%)[a]
Cotton trousers	44	17
Cotton underwear	17	10
Synthetic trousers	18	28
Cotton knit shirts[b]	32	18
T-shirts and tank shirts	12	17
Knit shirts	43	18
Other synthetic apparel	12	18
Other—constrained	19	18
Total constrained categories	19	18

[a] *MFN tariffs are the duties that WTO members pay. These are averages because each category represents many products for which duties vary.*

[b] *Quotas for China and Hong Kong are subdivided into T-shirts and tank shirts and all other knit shirts of cotton.*

SOURCE: Calculation by Nathan Associates Inc.

After December 31, 2004, average duties of 18 percent will remain, but a substantial barrier to these countries' exports will be eliminated. In addition, competitive pressure from low-cost suppliers in Asia is likely to increase in 2004 because the ATC provides for accelerating the loosening of quotas in the years leading up to elimination.[11] Projected average annual growth rates for U.S. textiles and apparel quota categories filled in 2003 are presented in Table 2-4.

Annual growth rates permitted by quotas on constrained suppliers range from 7 percent on synthetic trousers to 12 percent on cotton underwear. Because these growth rates exceed the average annual growth of U.S. apparel consumption (2–3 percent), the Dominican Republic is already experiencing considerable competitive pressure from quota-constrained suppliers in the interim period (Stage III, 2002–2004) before quotas are removed (Stage IV, January 1, 2005).

[11] There is some question as to the ultimate growth in exports constrained suppliers will experience in 2004, the last year of the ATC, since provisions for "borrowing" quota from subsequent years will be eliminated. The elimination of the carry forward provision will reduce opportunities for producers to exceed their quota caps.

Table 2-4
Projected Average Annual Growth Rates Permitted by Constraining Quotas in the U.S. Market, for Selected Apparel Products, 2004

Product	Growth Rate Permitted by Constraining Quotas
Cotton trousers	8
Cotton underwear	12
Synthetic trousers	7
Knit shirts	8
Other synthetic apparel	Rates for these categories cannot be calculated because of part categories that differ among importers.
Other constrained	

SOURCE: Calculations by Nathan Associates Inc. Data from U.S. Department of Commerce Office of Textiles and Apparel (OTEXA) bilateral agreement files.

Assumptions

To estimate the effect of textile and apparel quota elimination on the Dominican Republic, we used an economic model that includes the following variables:

- Product-by-product estimates of how significantly quotas constrain the products of greatest interest to producers in the Dominican Republic,
- U.S. market shares of various suppliers,
- Production costs, and
- The elasticity of demand.

Our model also specifies assumptions unique to the textile and apparel industry. First, it assumes that market adjustments will be long term. For the first one to three years, buyers may be reluctant to switch producers to diversify their sourcing base for fear of losing a reliable supplier. Likewise, producers may sell products below cost for some time, expecting an improvement in market conditions. As time passes, however, buyers and producers will adapt. Buyers will find new suppliers and unprofitable producers will go out of business.

Second, the model assumes that the United States does not apply trade remedies such as antidumping duties, general safeguards such as those applied against U.S. steel imports, or safeguards provided for in China's WTO Accession Agreement.[12] The most important of the safeguards included in China's agreement allows WTO members to respond specifically to

[12] The U.S. Department of Commerce has been negotiating new limits on imports of Chinese garments to take effect in 2005. While the ATC provides for the elimination of quotas, the China special textile and apparel safeguard is subject to much interpretation. Government officials have been threatening to implement this safeguard before Chinese imports rise. In 2003, the US imposed safeguards against China's exports of brassieres and certain knit fabrics.

surges in imports of textiles and apparel that are "due to market disruption, threatening to impede the orderly development of trade in these textiles and apparel products."[13] It provides for the imposition of one year of protection that can be renewed after increasing the restricted level of trade by 7.5 percent. It is available through 2008, and China does not have the right to retaliate against its invocation.[14]

Third, our model assumes that macroeconomic variables such as exchange rates and labor costs remain as they were in the first quarter of 2003, our simulation's base year for data. Finally, of course, no economic model can accurately account for all exogenous shocks that could affect world trade, including war, disease, and terrorism.

Given that a large number of countries are constrained by quotas and that the tariff equivalent of some quotas equals 40 percent or more, we project that the elimination of quotas will have a substantial effect on exports from the Dominican Republic and employment there. The effect, however, varies considerably among product lines.

Estimated Effects on Shipments

Table 2-5 presents the effects of quota elimination on U.S. imports from the Dominican Republic. These imports are projected to decline an average 31 percent. Shipments of cotton trousers are projected to decline by approximately 45 percent because the tariff equivalents of quotas for these products are among the highest and because currently constrained suppliers already have a large market share. In contrast, shipments of cotton underwear may decline as little as 14 percent because quota tariff equivalents are smaller as are the number and market share of countries currently constrained by quotas.[15] In all cases the effect of quota elimination on the Dominican Republic is mitigated because other unconstrained producers, such as Mexico, Honduras, Guatemala, and Sri Lanka, are expected to lose substantial market share.

Shifts in world trade patterns of this magnitude will change the structure of the value chain in which apparel is made. Buyers will no longer be required to maintain suppliers across the world in order to manage the constraints of the quota system. Orders will probably be consolidated with the largest, most capable manufacturers. In recent interviews, suppliers in the Dominican Republic indicate that consolidation is already happening. Larger suppliers

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[13] WTO Working Party Report on the Accession of China, paragraph 242 (a) and WTO Working Party Report on the Accession of China, section 13.

[14] For a discussion of safeguards in China's WTO accession agreement, see "Changes in Global Trade Rules for Textiles and Apparel: Implications for Developing Countries," by Peter Minor and published by Nathan Associates and USAID (2002).

[15] Each small subcategory, such as swimwear or hats, is vulnerable to rapid shifts in market share because if a large supplier, such as China, focuses on one of these products, it could easily supply most U.S. import requirements.

are buying small and medium Dominican operations to complement product lines, gain service capabilities, and reduce costs. In short, the elimination of quotas is likely to change how business in the textile and apparel industry is conducted in the Dominican Republic.

Table 2-5
Projected Impact of Quota Elimination on U.S. Imports from the Dominican Republic

Product	Imports from the Dominican Republic, 2003	Impact of Quota Elimination	
		Change in Value [$US Million]	Percent Change
Cotton trousers	670	-300	-45
Cotton underwear	312	-42	-14
Synthetic trousers	254	-82	-32
Cotton knit shirts	203	-81	-40
Other synthetic apparel	112	-22	-20
Other	407	-134	-33
Total affected by quotas	1,958	-662	-34
Total unaffected by quotas	164	0	0
Total	2,122	-662	-31

SOURCE: Analysis by Nathan Associates Inc. Partial equilibrium model.

Estimated Effects on Employment

About 98 percent of the Dominican Republic's exports of apparel come from the more than 40 free zones (*zonas francas*).[16] Textile activities in the free zones are mostly labor-intensive cut, make, and trim operations.[17] Several companies knit their own fabrics, but most import fabrics; and the United States is the dominant source of materials for more than two-thirds of textile companies in the free zones.[18]

We estimate that quota elimination will result in the loss of 36,853 jobs in the free zones' apparel industry (according to figures from the *Consejo Nacional de Zonas Francas de Exportación* on the average output/sales ratio for the period 1996–2003). This loss will affect 31 percent of the 2003 workforce of 119,101. This estimate may be conservative because the loss in shipments due to quota elimination will affect labor-intensive garments such as trousers much more than material-intensive garments such as T-shirts, tank shirts, or cotton

[16] Discussions with Dominican Republic officials.
[17] Larger companies such as Grupo M and Inter Americana and some medium-sized companies design, knit, and finish garments.
[18] Consejo Nacional de Zonas Francas de Exportación 2003.

underwear. Jobs will also be lost in other formal sectors that depend on the free zones, such as utilities, transportation, and services, and in informal sectors that employees of apparel firms support, such as child care and street vending.[19] These losses will be in addition to the reduction in labor that normally occurs in the textile industry, which steadily pursues cost-reducing measures by lowering labor content to keep pace with competitors.[20] If the Dominican textile industry is growing, it is probably shedding jobs because of gains in productivity, so employment would be expected to continue to decline even without quota elimination. The new competitive environment will likely accelerate these losses.

[19] Free zone firms in El Salvador's textile sector are estimated to generate two jobs indirectly for every direct job. Embassy of the United States in El Salvador, "Maquila Sector Survey 2000," www.sansalvador.usembassy.gov.

[20] Increasing integration within the textile and apparel industries does mitigate the effects of the job loss trend that results from productivity gains. As more firms extend their activities into the value chain, such as design, logistics, and the manufacture of materials, employment losses will be reduced.

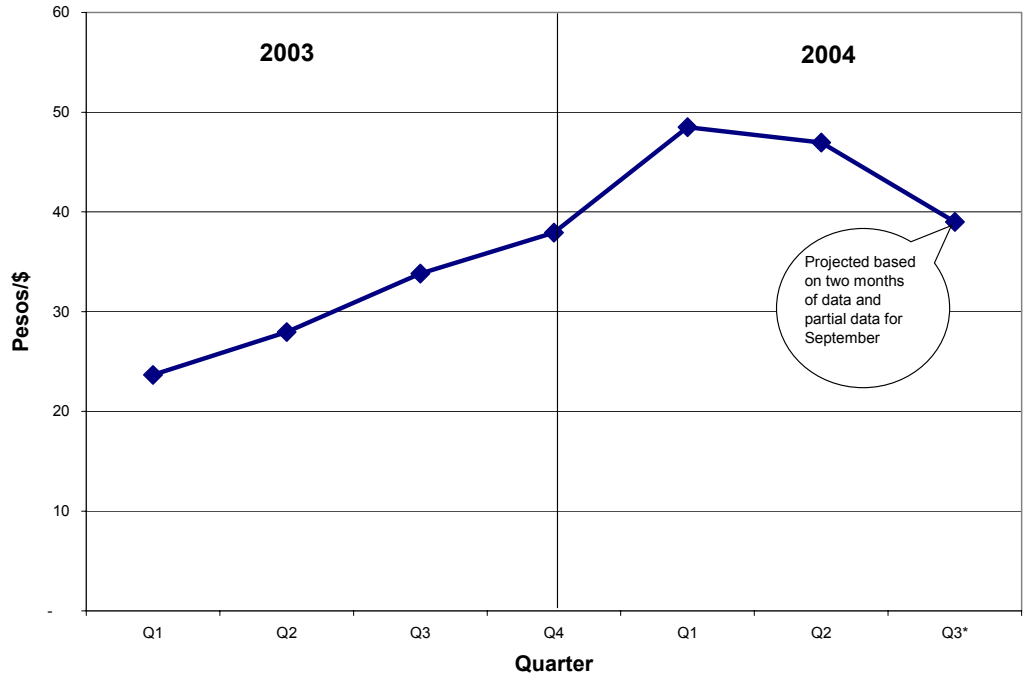
3. Peso Devaluation

With an average annual real GDP growth of 6 percent in the 1990s, the Dominican Republic's economy was a regional success. But by the beginning of 2001 the economy began to show its dependence on external factors, including rising oil prices and the economic consequences of the September 11 attacks. Entering into 2002, export and tourism receipts fell, and the country's balance of payments shifted into a deficit (IMF 2003). Authorities responded to a slowing economy with fiscal and monetary policies that widened the public sector deficit and increased the money supply. Credit expansion and an injection of liquidity into a failing banking system put unsustainable pressure on an already wavering peso. The defining moment of the macroeconomic crisis was the failure of a private bank, Baninter, in the spring of 2003. Confidence in the Dominican Republic's economy collapsed, GDP fell, and the peso lost nearly 50 percent of its value against the U.S. dollar between the first quarter of 2003 and the same period in 2004 (Figure 3-1).

In theory at least, currency devaluation can help make local export sectors, including Dominican free zones, more competitive. Reality, however, is more complicated. Rapid swings in macroeconomic factors, such as the exchange rate, influence every economy differently depending on local conditions, including policies. Consider the experience of South East Asian nations in responding to the Asian financial and currency crisis of the late 1990s. While Indonesia focused on restoring faith in its tattered banking system (a feat only recently completed), Thailand rapidly stabilized its currency value.

The Dominican Republic would do well to monitor the implications of devaluation and new government policies on employment-generating and foreign exchange-earning industries, such as textiles and apparel; the effects of rapid devaluation on industry sectors will vary. An unchecked contraction in exports and employment, for example, would undermine the textile and apparel industry's efforts to revive and grow in an increasingly competitive global industry.

Figure 3-1
Dollar/Peso Exchange Rate, 2003-2004



SOURCE: *International Monetary Fund, International Financial Statistics.*

We begin our analysis by reviewing variables determining the effects of currency devaluation and government policies on the Dominican textile and apparel sector. In examining the sector we keep in mind that the effect of fiscal and monetary policies on materials and services depends on whether pricing is set locally or internationally.[21] The value of imported materials (e.g., components and imported fuel used in the production of exports) is a key determinant mitigating the effect of currency devaluation; the prices and availability of these goods are set internationally. On the other hand, goods and services priced on local markets, such as wages, are determined more by local conditions. Finally, officials trying to correct fiscal and monetary imbalances seek new sources of revenue and trim inessential programs. All of these factors influence competitiveness, and not all positively.

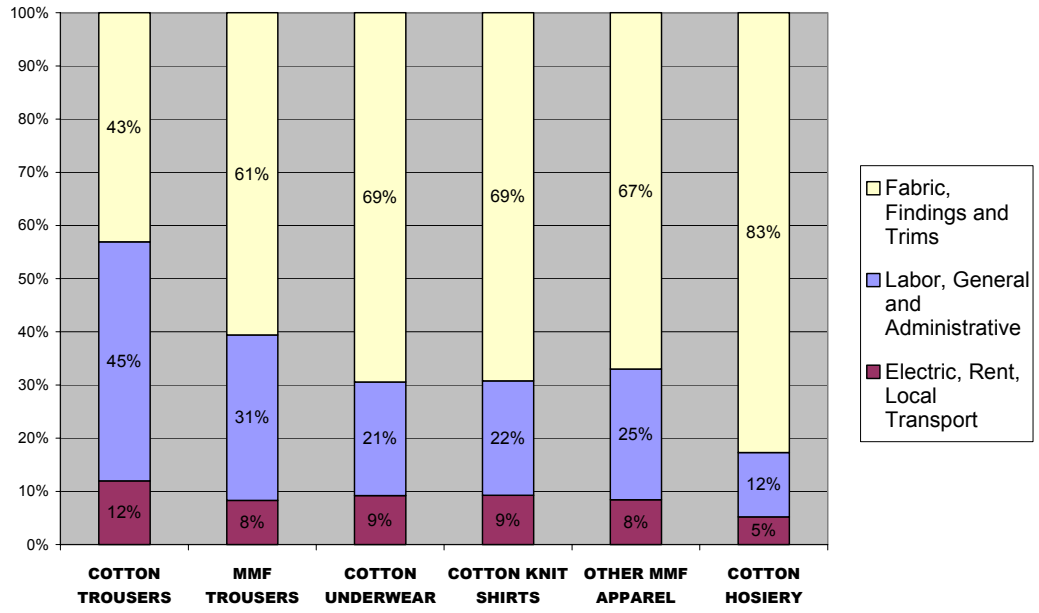
[21] Economists refer to this distinction as tradable and non-tradables.

Consequences of Peso Devaluation

COMPOSITION OF PRODUCTION INPUTS

Most of the export value of apparel assembled in the Dominican Republic derives from imported materials and services purchased mainly from global suppliers and that are priced internationally. Fabrics, yarns, and dying make up the bulk of a typical garment's cost. Shipping and energy costs closely track international rates. Moreover, many free zone services, such as park maintenance and rent, are priced in dollars. Figure 3-2 presents the estimated proportion of labor, general, and administrative costs in the export price of key garment exports from the Dominican Republic.

Figure 3-2
Breakdown of Local and Foreign Content in Apparel Manufactured in the Dominican Republic Free Zones



SOURCE: Nathan Associates Inc. survey of Dominican Republic Producers, 2004.

Fabric, labor, transportation, and energy costs vary considerably from product to product in the apparel sector. Consequently, when dollar-equivalent wages, taxes, energy, and other costs change, the impact is not felt equally by all product segments. For example, local labor costs account for nearly 45 percent of the export value of cotton trousers, but only 12 percent of the value of cotton hosiery. For the majority of Dominican Republic apparel exports, the

value of foreign fabric, trims, and components made up two-thirds or more of the production cost of the garment in 2003.[22]

LABOR AND WAGES

When transnational producers assess the competitiveness of local labor, they examine a number of factors, including productivity, government regulations, and the effective dollar equivalent of wages. Two factors determine the dollar wage equivalent: the exchange rate (which in the Dominican case has devalued) and the prevailing nominal (peso) wage. Interviews with Dominican producers indicate that the prevailing wage in the apparel industry is based on the national minimum wage. If the minimum wage rises, all other compensation—including incentive payments—increases by roughly the same percent. The Dominican Republic maintains several minimum wage levels for various industrial sectors. The minimum wage for the free zones is usually revised every two years. Table 3-1 summarizes recent trends in the Dominican peso exchange rate, the free zones' minimum wage, and the effective dollar wage equivalent.

Table 3-1
Free Zone Minimum Wages and Dominican Republic Exchange Rates, 2003-2004

	2003				2004		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3[a]
Minimum wage (pesos/month)	2,490	2,490	2,490	2,988	3,561	3,561	3,561
Exchange (peso/dollar)	24	28	34	38	48	47	36
Minimum wage (dollars/month)	105	89	74	79	73	76	100

[a] *Third quarter data is an estimated end of period exchange rate, September 2004*

SOURCE: *Data for free zone minimum wages from Banco Central de la Republica Dominicana. Peso exchange rate from the International Monetary Fund, International Financial Statistics.*

Since the collapse of the peso, the free zones' minimum wage has increased twice, once in October 2003 and again in December 2003. The cumulative effect of these increases raised minimum wages in the free zones by 43 percent. Many of the producers interviewed in the course of this study noted that they increased the wage by more than the mandated amount to spur productivity. Still others increased benefits, such as food and medical care, to boost morale as well as productivity; producers estimate that these increased fringe benefits cost between 2-5 percent.

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[22] The relative cost of fabric in the production of a garment has shifted radically with the devaluation of the peso and resulting effective dollar wage costs. The data presented are estimates based on pre-crisis exchange and wage rates during the first quarter of 2003.

The net result of rising nominal (peso) wages and the recent strengthening of the peso is that today's effective dollar wages are only 5 percent lower than before the peso collapse. This compares to the height of the peso devaluation, in the first quarter of 2004, when effective dollar wages had declined by more than one-third. According to producers, this one-third decline was a real, but short-lived boost for competitiveness. Steadily rising electricity costs have eroded the wage advantage.

ENERGY COSTS AND ELECTRICITY SUBSIDIES

The peso collapse worsened a crisis in the national power-generation industry. With power outages averaging 12 hours per day, everyone has been affected by the crisis. The collapse of power generation and transmission can be traced to government policies providing subsidies to the power-generating industry in exchange for guaranteed prices. The government, under pressure to curb spending, was never able to meet its obligations for subsidies. Electricity prices were belatedly allowed to rise—and then only for certain sectors, such as industry and wealthy consumers. This imbalance between supply costs and revenues has stressed the electricity supply chain.

After labor, electricity is the second-biggest cost in garment production in the Dominican Republic. The power crisis has disadvantaged the free zones' apparel sector, directly and indirectly. First, the elimination of subsidies has driven up electricity prices from the national power grid. Second, frequent blackouts have increased dependence on expensive back-up generators. Frequent blackouts in the residential sector have also eroded worker morale and productivity. Workers are reportedly far less "present" (i.e., productive) because they now lack the basic benefits of electricity at home (e.g., fans, lights, sound sleep).

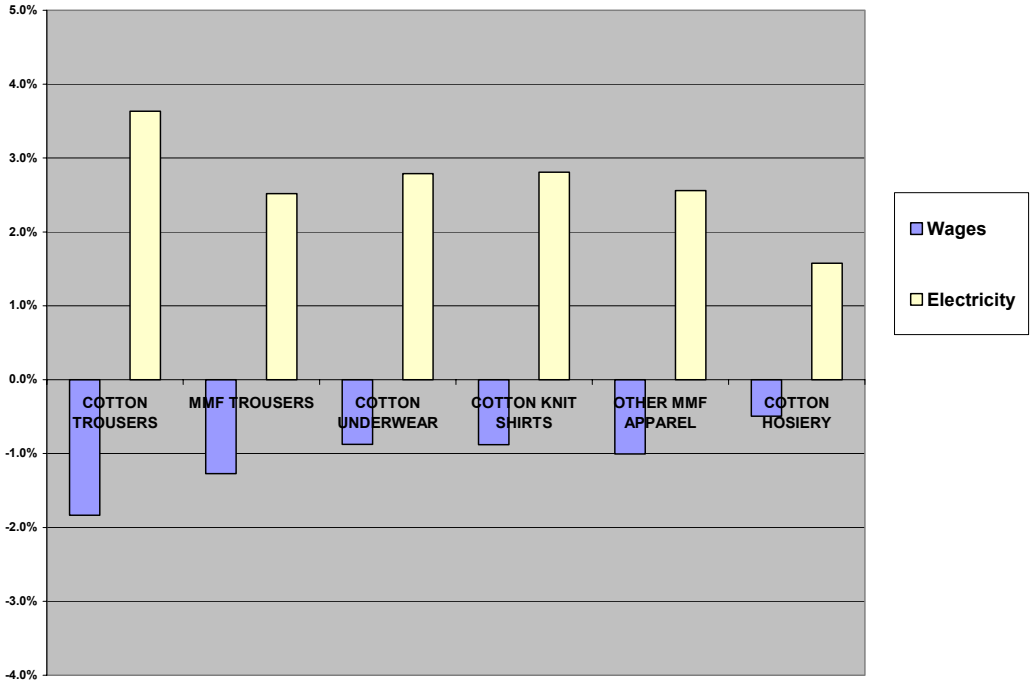
Producers also claim that they pay for electricity from the national power grid that never arrives. They assert that they have long-term contracts with the power producers for a given capacity, but the frequent power outages mean they only get a fraction of the agreed amount. Still they pay the full bill, which means that actual costs can be double the agreed price. One producer volunteered that fuel costs for backup generators cost almost the same as power from the national grid. But it is the capital and maintenance expense of generators that make them too expensive for full-time use. Producers all agree: the cost of electricity in the free zones has gone up significantly. Indeed they report that energy costs are now 50-60 percent higher than the amount that could be justified by either the devaluation or higher petroleum costs.

Electricity subsidies to the industrial sector were estimated at about 38 percent in 2003.[23] The elimination of that subsidy in 2004 (either through higher delivered rates, or lower delivery of pre-paid rates) would explain a significant part of the reported increase in electricity costs

[23] From Sector Electrico en la Republica Dominicana "Realidades y Propuestas" Junio 11, 2004.

experienced by free zone apparel producers. Higher electricity costs have affected the export price of apparel by an estimated 3 percent (Figure 3-3). While differences in costs are readily apparent between product groups, the variation is lower than that of the effective dollar wage. That is, higher electricity costs have affected all product groups evenly.

Figure 3-3
Impacts of Changes in Real Effective Wages and Electricity Costs on the Export Price of Selected Garments



SOURCE: *Nathan Associates Inc.*

NET EFFECTS

Table 3-2 summarizes the effects of the devaluation on the average export price of selected products. All product categories have experienced a decline in cost competitiveness, despite the advantage of lower effective dollar wages (column C). The primary source of the decline in cost competitiveness is the higher cost of electricity. This analysis assumes a projected exchange rate of 36 pesos to the dollar. If the peso continues to strengthen against the dollar, without appropriate policy modifications the competitiveness of the Dominican apparel industry will continue to decline beyond the pre-crisis levels.

Table 3-2
Estimated Impacts of Higher and Energy Costs on the Export Price of Apparel

Quota Category	Product	Estimated Impact on Export Price (Percent Change)		
		Devaluation and Minimum Wage (C)	Increased Electricity Costs (D)	Total (C+D=F)
347/348	Cotton trousers	-1.8	3.6	1.8
647/648	MMF trousers	-1.3	2.5	1.2
352	Cotton underwear	-0.9	2.8	1.9
338/339	Cotton knit shirts	-0.9	2.8	1.9
659	Other MMF apparel	-1.0	2.6	1.6
332	Cotton hosiery	-0.5	1.6	1.1
652	MMF underwear	-0.6	2.1	1.4
340/341	MMF knit shirts	-1.2	4.0	2.7
435	W&G wool coats	-2.2	4.4	2.2
--	Other	-2.0	5.0	3.0
--	Total	-1.1	3.1	2.0

SOURCE: *Analysis by Nathan Associates Inc.*

Assumptions

Our analysis assumes an exchange rate of 36 pesos to the U.S. dollar. It also assumes that nominal minimum wages will remain at their December 2003 level of DR$ 3,561 per month.

The increase in energy costs take into account the elimination of subsidies to industrial sectors, approximately 38 percent. Problems that persist in the national electric grid, such as blackouts and backup generator costs, would add to the cost of electricity, but are not estimated here.

Estimated Effects on Shipments

The collective effect of peso devaluation and higher energy costs account for a projected 10-percent decline in shipments of Dominican apparel (Table 3-3), with considerable variation across product groups. We project that cotton underwear will experience the greatest drop (12 percent), primarily because of higher energy costs. Cotton and synthetic trousers will, we believe, be more modestly affected, since higher energy costs will be offset by lower labor costs (recall from Figure 3-2 that these two products have the highest labor content of the major export products). When these effects are combined with the estimated impact of quota elimination, total shipments are projected to decline by more than one-third of 2003 baseline

exports. Note that the negative effect of devaluation likely will occur before quotas are eliminated in 2005.

Table 3-3
Apparel Exports: Projected Impacts of Devaluation and Higher Energy Costs on Baseline 2003 Exports

Product	U.S. Imports from Dominican Republic, 2003	Projected Impact			
		Peso Devaluation and higher energy costs)		Combined Impact of Quota Elimination and Peso Devaluation	
	US $ Million	Change in Value [US $ Million]	Percent Change	Change in Value [US $ Million]	Percent Change
Cotton trousers	670	-54	-8	-354	-53
Cotton underwear	312	-38	-12	-80	-26
Synthetic trousers	254	-15	-6	-97	-38
Cotton knit shirts	203	-19	-9	-100	-49
Other synthetic apparel	112	-9	-8	-31	-28
Other	407	-63	-16	-197	-49
Total affected by quotas	1,958	-198	-10	-860	-44
Total unaffected by quotas	164	-16	-10	-16	-10
Total	2,122	-214	-10	-875	-41

SOURCE: Nathan Associates Inc partial equilibrium model.

Estimated Effects on Employment

On the basis of these assumptions, we project that the free zone apparel sector will lose 11,907 jobs. Because most shipment decreases are concentrated in the low labor-intensive sectors of cotton underwear and hosiery, this projection could be somewhat high. The labor-intensive sectors, including cotton and synthetic trousers, will only be modestly affected.

4. US-Central American-Dominican Republic Free Trade Agreement

The Dominican Republic and other countries of the Caribbean Basin have long benefited from preferential access to the U.S. market. The original Caribbean Basin Initiative (CBI) of 1983 and its 1990 extension granted duty-free access for many products from the Caribbean Basin and lower duties and liberal quotas for textiles and apparel. This important advantage in textile and apparel trade led to substantial investment in and development of the sector in the region.

Subsequently, the North American Free Trade Agreement (NAFTA) between the United States, Mexico, and Canada implemented in 1994 and the Agreement on Textiles and Clothing (ATC) completed by the WTO in 1995 altered textile and apparel trade dynamics. The ATC committed all WTO members to eliminating global textile quotas by 2005. Caribbean countries then lobbied the U.S. government for improved access for textile products in line with the NAFTA. In October 2000, their request for NAFTA parity was granted, at least in part, with the authorization of the Caribbean Basin Trade Preference Act (CBTPA). The purpose of the CBTPA was to improve and extend the preferential benefits on textiles and apparel beyond those granted under the CBI. In many ways the CBPTA provided NAFTA-like access to the U.S. market by eliminating duties on qualifying apparel, under conditions such as

- The forming and finishing of fabrics knit from U.S. yarns (subject to a cap);
- The cutting of U.S.-formed fabric made of U.S. yarns and sewn with U.S. thread; and
- The construction of foundation garments (brassieres), at least in part, from non-regional materials.

However, as a contingency for even better access, the CBTPA requires that beneficiary countries engage in broader, long-term regional integration:

> It is the policy of the United States…to offer Caribbean Basin beneficiary countries willing to prepare to become a party to the FTAA or another free trade agreement, tariff treatment essentially equivalent to that accorded to products of NAFTA..." CBTPA Section 202 (b) (1).

Recent data indicate that several Caribbean countries have taken advantage of the benefits created by CBTPA, while others have not. For example, in 2003 nearly 85 percent of U.S. imports from the Dominican Republic entered duty free (Table 4-1). In contrast, a much smaller share of the exports to the United States from Central American countries such as Nicaragua and Guatemala qualify for U.S. preferential access. [24]

Table 4-1
Central American and Dominican Republic Tariff Benefits under the CBPTA, 2003

Country	U.S. Imports		Duties and Preferences	
	Value [US$ Million]	Duty Free (%) [a]	Average MFN (%) [b]	Applied Rate (%) [c]
Nicaragua	484	32	18	11
Honduras	2,570	81	18	3
Guatemala	1,765	36	19	11
El Salvador	1,755	69	17	5
Costa Rica	591	76	14	2
Total CA-5	7,165	63	17	6
Dominican Republic	2,188	84	17	2

[a] *U.S. imports meeting the U.S. rule of origin under the CBTPA are duty free.*

[b] *The average MFN rate is the duty that would be paid if there were no preferences for CBTPA countries.*

[c] *Applied rate is the average rate paid by suppliers and is a mix of products paying zero duty and those not eligible for duty benefits.*

SOURCE: U.S. Department of Commerce Imports of Merchandise Trade 2003.

The CBTPA improves benefits for exporting countries, but falls short of a free trade agreement (FTA). First, it is subject to change or withdrawal at any time because it is not a negotiated trade agreement between countries. Certainly there is no requirement that it be renewed when it expires in September 2008. Second, because it generally requires the use of U.S. fabrics and/or yarns, it reduces the incentive for regional producers to establish local production for spinning yarns and weaving fabrics. Vertical integration of the textile supply chain would provide an opportunity to increase investment and value added in the region, and could lower costs and improve competitiveness—all important in light of the pending elimination of quotas under the ATC.

[24] Reports from the region indicate the low utilization of CBTPA benefits is linked to Asian producers that prefer cheaper Asian yarns and fabrics to U.S. materials. The use of U.S. materials is required to receive U.S. duty reductions. Under the new DR-CAFTA, many of these non-regional products will remain ineligible for duty-free treatment. Major exceptions to the yarn forward rule are reviewed later in this chapter.

Provisions and Implications of the New FTA

The new FTA between the United States, Central America (CAFTA), and the Dominican Republic (US-CAFTA-DR) could boost the region's competitiveness in textile and apparel trade by addressing many of the limitations created by the CBTPA in the textile and apparel sector.

The primary benefit of the US-CAFTA-DR to the Dominican Republic and to the Central American countries that are party to it is the agreement's potential to stabilize investor and buyer confidence by granting permanent duty-free trade status to a wide range of regional textiles and apparel. With the assurance of permanent trade status and less stringent content requirements, the Caribbean textile and apparel industry should be in a much better position to adapt to the highly competitive market that is emerging with quota elimination. In fact, U.S. industry representatives are concerned that these potential benefits will be underused if the US-CAFTA-DR is not ratified before or soon after quotas are eliminated in 2005.[25]

NEW RULES OF ORIGIN (YARN FORWARD)

While the establishment of permanent trade status is perhaps the greatest long-term advantage of the agreement, its new rule of origin could ease sourcing of textiles and trims. As mentioned, the CBTPA already permits the forming, finishing, and dying of knit fabrics in the region, but requires the use of wholly formed U.S. yarns[26] and strictly limits weaving processes and spinning to U.S. producers. The US-CAFTA-DR will provide to all parties a regional yarn forward rule of origin that qualifies not only apparel exports made from regional knitting sources, but also garments constructed from spinning, weaving, and the unrestricted finishing of fabrics by any party to the agreement, including the Dominican Republic. Moreover, since the US-CAFTA-DR no longer requires the use of "wholly formed U.S. yarns" in Caribbean Basin apparel exports, fiber content—including raw cotton and synthetic staple and filament—may be sourced from anywhere but must be spun in the FTA region.[27]

EXCEPTIONS AND COUNTRY-SPECIFIC PROVISIONS

The FTA contains several exceptions to the yarn forward rule of origin, including a single transformation rule (cut and sew) for certain woven apparel items including brassieres, boxer shorts, and pajamas. Dominican Republic exports of apparel (worth US$143 million in 2003)

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[25] The U.S./Central America Free Trade Agreement (FTA), Report of the Industry Sector Advisor Committee on Textiles and Apparel (ISAC-15), March 2004 found at www.ustr.gov.

[26] The use of regionally formed knit fabric was subject to a cap or quota that was never filled.

[27] Regional fabrics, yarns and home textiles will continue to be under the fiber forward rule. A yarn wholly formed in the United States is spun from U.S. fibers such as U.S. cotton and synthetic staple fibers and filaments.

will benefit immediately from the agreement's elimination of average applied duties ranging from 0.4 percent (brassieres) to 12 percent (dresses).[28]

For the Central Americans under CAFTA, wool apparel is under a fabric forward rule of origin (so yarns may be sourced from anywhere in the world, but fabrics must be formed by a party to the agreement). The Dominican Republic, however, is under a yarn forward rule of origin for wool apparel, having traded away this benefit for a special provision to source one million square meter equivalents of apparel that uses Mexican or Canadian wool fabric. This provision is covered under the US-CAFTA-DR special cumulation clause.

Under the special cumulation clause the United States permits the use of Mexican and Canadian woven fabrics (garments included in Chapter 62 of the harmonized tariff schedule). But the benefits of cumulation are limited to a regional cap of 100 million square meter equivalents.[29] Sub-limits also are imposed for certain cotton and man-made fiber trousers and skirts (45 million square meter equivalents) and blue denim trousers (20 million square meter equivalents). The limits for blue denim trousers and other trousers and skirts are mutually exclusive, so only 65 million square meters of cotton trousers, blue denim, and skirts may be sourced from Canada and Mexico. A sub-limit on wool apparel of one million square meter equivalents was also established for the five Central American countries. The Dominican Republic obtained for itself another provision for 1 million square meter equivalents of wool apparel made of Canadian and Mexican fabric.

The Dominican Republic is the region's largest producer of woven products, so the cumulation provisions could be of particular benefit to producers there. We estimate that the special cumulation provision could amount to a benefit of US$148 million in Dominican Republic exports of these products under certain assumptions (Appendix B). Furthermore, we estimate the regional cap of 100 square meter equivalents as approximately equal to US$410 million in regional exports at 2003 prices. The special cumulation clause, unlike most other elements of the US-CAFTA-DR, will not become effective immediately upon ratification and implementation.[30] Instead, it will enter into force only after each party to the US-CAFTA-DR, Canada, and Mexico have exchanged written notification that they have amended their laws and tariff schedules, as necessary, to implement the cumulation provision. Two areas must be addressed by the implementing legislation by each party to the agreement. First, reciprocal treatment of goods entering Canada and Mexico must be granted.[31] Second, each party must enter into an agreement with Canada and Mexico to provide for textile verification, including document reviews and site visits.

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[28] Appendix A contains an analysis of regional exports benefiting from this provision.
[29] The regional cap may grow to a hard cap of 200 million square meter equivalents, based on the growth rate of regional exports of these products. Sub-limits are not subject to the growth provision.
[30] The US-CAFTA-DR has a provision to make it retroactive to 1/1/2004, except for the cumulation provision and special provisions for Nicaragua and Costa Rica.
[31] The agreement does not outline what the conditions of reciprocal treatment are. For example, Canada and Mexico may or may not require a regional cap on cumulation.

Since the Dominican Republic is the only party to the FTA that does not already have free trade access with Mexico[32] or Canada, a special provision allows it to benefit from special cumulation at the time the Central American countries fulfill their requirements to use this provision. The Dominican Republic will then have five years to negotiate its own FTAs with Canada and Mexico. The US-CAFTA-DR also provides for extending the special cumulation clause at some point to other FTA parties, such as prospective FTA partners Colombia and Peru.

OTHER NEW PROVISIONS

Under provisions of the US-CAFTA-DR, the CBTPA rule limiting the use of foreign findings[33] and trims to 25 percent of the value of the garment has, generally, been eliminated. Under the yarn forward rule, a garment's origin is defined by the component that confers the "essential character" of the garment. For the vast majority of apparel, this means the fabric; findings and trims may be from anywhere. (Exceptions are waist bands of less than one inch, visible linings, and sewing thread, which must be regionally sourced).

Also under the FTA, a special fabric forward rule of origin was granted to U.S. textile producers. U.S. fabrics of foreign yarns will qualify for reduced duties when used in Caribbean apparel. Tariffs applied to apparel made from U.S. formed fabric under this regime only will apply to the value added in the Dominican Republic or CAFTA region. Moreover, the essential character rule does not apply and all sewing thread, pocketing, and trims must be from the United States.

Other Central American countries also have special provisions. The most notable exception to the yarn forward rule is a tariff preference level (TPL) for Nicaragua on apparel made from fabric (except wool) sourced from anywhere in the world, subject to a 100 million square meter equivalent cap and a phase-out over 10 years. And Costa Rica negotiated a 50 percent reduction in duties on wool apparel that does not meet the FTA rule of origin, subject to a 500,000 square meter equivalent cap.

LOWER TRANSACTION COSTS

The US-CAFTA-DR could also greatly reduce transaction costs associated the CBTPA's complex rules of origin. The cost of complying with those rules affects the entire supply chain, from yarn to U.S. retailers. Retailers estimate that as much as 4 percent of a garment's cost can be attributed to compliance with CBTPA rules. In addition, application of the essential character rule under the FTA is expected to reduce the number of shipments deemed

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[32] Mexico has agreements with Costa Rica (1995), Nicaragua (1998), and the "Northern Triangle" of Guatemala, Honduras and El Salvador (2001). Canada has agreements with Costa Rica (2001), and the remaining four Central American countries completed their tenth round of negotiations in February 2004.

[33] Findings include pocketing, pads, and straps among other similar articles.

ineligible for duty-free access simply because a piece of documentation for a finding or trim is unclear or inadmissible. Finally, the FTA provides incentives for electronic documentation of originating materials. All these factors are expected to make the regional textile and apparel supply chain more efficient.

REVISED SHORT SUPPLY LIST

Under the CBTPA, Caribbean producers could use yarns and fabrics listed on the NAFTA short supply list, which names textiles not in commercially available supplies. Under the FTA, the NAFTA short supply list has been replaced with a new US-CAFTA-DR list of 43 products. The list offers an opportunity similar to that obtained under the cumulation and single transformation provisions, that is, the ability to source fabric from countries not a party to the US-CAFTA-DR and still maintain duty-free status. Products can be added to the list within 90 days if "substantial production" does not exist in the region. Products can also be removed just as quickly and simply.

Currently, the value of the products on the list is limited, since most are niche products or were already listed on the NAFTA/CBTPA list (Appendix C). For example, "corduroy containing more than 7.5 wales/cm" falls outside the mainstream volume market, which requires corduroy fabrics of between 4.0 and 5.0 wales/cm. The potential for this product will be limited to certain lines of hats and filling out existing product lines. Moreover, garments made from this fabric were already under a single transformation provision under the CBTPA reference to the NAFTA short supply list.

Many details of the short supply process are not yet clear. For example, will fabrics produced in the United States under the fabric forward provision (using foreign yarns) be treated as fabrics in short supply or will apparel producers be expected to look toward this program, with its more limited tariff benefits, for garments made from these fabrics?

REMAINING UNCERTAINTIES AND LIMITATIONS

Despite these negotiated improvements, the real benefits of the new rules of the FTA are not entirely certain. For example, in the case of the new yarn forward rule of origin, which permits the use of woven fabrics and yarns made in the region, existing regional capacities for export-quality weaving and spinning are considered very limited.[34] New investment in the region is expected to be one of the greatest benefits of the US-CAFTA-DR; however, any investments in spinning and weaving capacities will take place over many years. Investment

[34] Weaving capacity in El Salvador is estimated at 200 million square meters and in Guatemala at 240 million square meters. Nicaragua has two Chinese denim plants; industry sources estimate that the combined capacity of these two plants when completed will be approximately 40 million square meters per annum. Yet U.S. imports of trousers alone from the Caribbean region required nearly 600 million square meters of fabric.

will also be influenced by the elimination of quotas and the new uncertainty of a quota-free world in 2005.

The regional cumulation clause will only become effective if all governments involved agree to implement the required legislation. Some U.S. industry officials have questioned whether the regional cap is large enough to provide an incentive to obtain the required level of investment and government support. Still others question whether the anti-transshipment documentation and verification required will not overwhelm the advantages of sourcing fabric from Mexico or Canada.[35] There is no clear mechanism for allocating the cap on regional cumulation in any case.

The impact of the US-CAFTA-DR will be determined in part by the ability of the parties to tap potential benefits, such as the special cumulation provision and new sources of textile materials at new price levels. The benefits of provisions such as the short supply list, however, are as uncertain as new investments.

Assumptions

Our analysis of the effects of US-CAFTA-DR assumes that all long-term adjustments have taken place; that the cumulation provision will be wholly implemented; that the Dominican Republic will fully utilize its share of the special cumulation quota (Appendix B); that duties on products provided a single transformation rule (brassieres, pajamas, and boxer shorts) are immediately eliminated upon implementation of the agreement (Appendix A); and that exported products already duty free under the CBTPA (more than 85 percent of Dominican Republic exports) obtain only a 2-percent benefit from expected reductions in transaction costs, including costs of complying with rules of origin (e.g., the essential character rule, automated documentation, higher foreign content limits for findings and trims).

This admittedly static analysis does not estimate the potential for increased investment in the textile sector, which will likely take many years and depend on numerous external factors. In addition, the benefits provided by permanent trade status as opposed to the unilateral preference under CBTPA, subject to renewal and revocation by U.S. Congress, cannot be quantified. While the CBTPA was conditional on the parties engaging in the FTA negotiations, we cannot know if the CBTPA benefits would have been renewed in September 2008 if the region did not fulfill this obligation. This last point should give pause to those who question the modest expansion of benefits under US-CAFTA-DR, especially in light of the elimination of U.S. textile and apparel quotas in 2005.

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[35] The U.S./Central America Free Trade Agreement (FTA), Report of the Industry Sector Advisory Committee on Textiles and Apparel (ISAC-15), March 2004 found at www.ustr.gov.

Estimated Effects on Shipments

Table 4-2 summarizes the potential impact of the US-CAFTA-DR on the Dominican Republic. Overall, products made principally of woven fabrics, such as trousers, brassieres, and dresses, benefit the most. The US-CAFTA-DR is projected to increase exports of cotton trousers by US$160 million or 50 percent over baseline projections and synthetic fiber trousers by US$58 million or 37 percent. Just over half of this increase is projected to derive from the benefits of special cumulation of woven fabrics from Mexico and Canada. Cotton underwear (primarily knit) and cotton knit shirts are expected to benefit more modestly, 21 and 24 percent over baseline 20053 U.S. imports after quota eliminations. Neither product group benefits from the special cumulation or single transformation provisions. Exports unaffected by quota elimination (primarily brassieres) are projected to increase by nearly 24 percent.

Table 4-2
Projected Impact of US-CAFTA-DR on U.S. Imports from the Dominican Republic

Product	U.S. Imports from the Dominican Republic (US$ Millions)			Impact of US-CAFTA-DR Relative to Baseline 2005	
		2005 (Estimates)			
	2003 Actual	Base Line[a]	With US-CAFTA-DR	US $ Million	Percent Change
Cotton trousers	670	316	476	160	50
Cotton underwear	312	232	280	48	21
Synthetic trousers	254	157	215	58	37
Cotton knit shirts	203	103	127	24	24
Other synthetic apparel	112	80	96	16	20
Other	407	210	288	78	37
Total affected by quotas	1,958	1,098	1,336	238	22
Total unaffected by quotas	164	148	184	36	24
Total	2,122	1,247	1,666	419	34

[a] *Baseline estimates include the impacts of quota elimination and devaluation.*

SOURCE: *Nathan Associates Inc. partial equilibrium model.*

In sum, implementation of the US-CAFTA-DR and its provisions would reduce by nearly half the estimated negative effects of quota elimination, peso devaluation, and energy costs. Participation in the FTA has the greatest salutary effect on products eligible for the single transformation rule, such as brassieres and other garments. It also significantly mitigates the impact of the elimination of global quotas and the recent peso devaluation on such product categories as synthetic trousers and cotton underwear. Although it does not completely eliminate the heightened competitive pressures that Dominican producers of cotton trousers and knit shirts will experience when the quotas are eliminated in January 2005, and the peso

devaluation has taken effect, it does allow producers of these products to do better than they otherwise would in the new competitive environment.

Estimated Effects on Employment

The effect of US-CAFTA-DR on direct employment mirrors its effect on export shipments. It would support an estimated 23,345 jobs in the free zones beyond those that would exist in the post-quota/post-devaluation environment. An important benefit of an FTA would be additional investment in upstream industries such as the manufacture of buttons, zippers, and packaging. But textile production, such as spinning and weaving is in doubt for two reasons. First, quota elimination is causing considerable uncertainty in the world textile market, so investors are not rushing to install machinery that can cost US$50–$100 million per mill. Second, spinning, weaving, and finishing require large quantities of cheap electricity and clean water, both of which are relatively scarce in the Dominican Republic.

5. Revaluation of China's Currency

China's currency, the *renminbi*[36] has been pegged at 8.3 per dollar since 1995. Meanwhile, China has run trade surpluses for the past 10 years and cash and investment outflows (negative values in Table 5-1) have not been sufficient to meet demands for the currency. Most economists conclude that without the Chinese Central Bank's interventions to maintain the pegged rate ("acquisition of foreign reserves" in the table) the renminbi would have appreciated against other currencies, including the U.S. dollar.[37] Assertions that the renminbi is undervalued have been at the forefront of arguments that China's exports of textiles and apparel are unfairly priced.

Table 5-1
China's Balance of Payments, 1995-2002 ($US Millions)

Year	Current Account	Net Financial Flows (Capital Account)	Acquisition of Foreign Reserves
1995	1,618	20,851	22,469
1996	7,243	24,462	31,705
1997	36,963	-1,106	35,857
1998	31,472	-25,224	6,248
1999	21,115	-12,463	8,652
2000	20,518	-9,825	10,693
2001	17,401	30,046	47,447
2002	35,422	39,795	75,217

SOURCE: *International Monetary Fund, International Financial Statistics.*

[36] Often referred to as the *yuan* by foreign observers and financial specialists.
[37] When comparing the real impacts of changing exchange rates, economists look to real, rather than nominal exchange rate. Real exchange rates adjust nominal exchange rates for relative changes in inflation in each country, hence a better measure of relative purchasing power. U.S. inflation, about 2.8 percent per annum, has exceeded the inflation rate in China (approximately 1.8 percent) in recent years. This would further support the conclusion that the Chinese currency is undervalued, since a dollar continues to buy relatively more in China than it does in the United States.

Still, the maintenance of China's currency peg does not ensure a future competitive advantage. In the long-term, any country's ability to prosper depends on its capacity to educate its work force, improve infrastructure, adopt technology, and ensure the security and stability necessary to attract capital investments. Exchange rates are only partly correlated with long-term growth trends and competitiveness.

U.S. buyers who source apparel from around the world have emphasized this point, noting that wages in China are not the world's lowest and that Chinese producers have a highly productive, well-educated work force and an effective management system. In addition, many Chinese factories are capable of providing full-package services including design, pattern construction, fabric, and material sourcing. In its extensive review of competitiveness in the global textile and apparel industries, the United States International Trade Commission (USITC) noted that many Chinese firms seek the best equipment and use the most modern technologies (USITC 2003). Moreover, Chinese producers can source competitively priced yarns, trims, and fabrics from a host of local producers that deliver materials in days. Shipping through China's deep water ports takes only about ten days more than sourcing apparel from regional producers in the Western Hemisphere. These factors--not the exchange or wage rate--make China the "supplier of choice" for U.S. importers of basic and fashion apparel (USITC 2003).

When U.S. producers lobby for a free-floating or revalued Chinese currency, they are betting that revaluation will make China less, not more, competitive. In the short term, this may be true, as higher labor costs are passed on to buyers. But in the medium to long term, the relationship between the exchange rate, capital accumulation, productivity, infrastructure, and competitiveness is not so predictable.

Assumptions

With both the largest global market share for apparel exports and a huge domestic market, China is known for its diversity as well as its size. China is the world's largest supplier of textiles and apparel, but is also one of the world's largest importers of raw cotton, yarn, and fabrics (US$4.6 billion in raw cotton, yarn, and fabric alone in 2003). These materials are reportedly used mostly to manufacture exports, rather than domestic products (USITC 1999). According to the USITC, Chinese yarn and fabric producers ship grey (unfinished) textiles to neighboring countries for dying and finishing and re-import the fabrics for making-up, since Chinese dying facilities are still insufficient for global markets. Moreover, most fabrics and yarns used in hosiery are sourced from other Asian countries (USITC 2003).

Although China's textile industry is growing rapidly and successfully, its apparel industry depends to some extent on imported inputs and services. Likewise, many of the raw materials and inputs used by Chinese manufactures, such as petroleum, cotton, and man-made fiber

feed stocks, are all priced at world values. The costs of purchasing quota in China,[38] often a large part of production costs, is priced in dollars though these costs likely will be eliminated starting in 2005.

For the purposes of this analysis, we assume that China's export-oriented garment industry depends on imported inputs and services to exactly the same extent that Dominicans do. China's actual import dependence is unknown. More locally priced value will drive up the estimates; less will lower them. Our analysis also assumes that the *renminbi* will appreciate 10 percent against the U.S. dollar. While most economists agree that the *renminbi* is undervalued (the currency will appreciate if allowed to freely float), no quantitative estimates as to how much it should appreciate exist. Moreover, if the government agreed to revalue of the *renminbi* it is not clear whether it would allow the currency to float freely or re-peg it at a new rate.[39]

Estimated Effects on Shipments

With a 10 percent appreciation of the *renminbi*, U.S. imports of textiles/apparel from the Dominican Republic are projected to increase by a modest 3 percent (Table 5-2). The impact is mitigated in part because of the relatively high proportion of dollar-priced inputs in the cost of garment construction. In addition, other producers, primarily in Asia, will retain their large U.S. market shares. In the case of cotton knit shirts (where the cost of cotton and imported machinery and energy make up the vast majority of the garment cost), the Dominican Republic's exports will increase by less than US$1 million. The product groups most aided by *renminbi* revaluation are those unprotected by quotas. Most of these products are brassieres, for which China is already the largest supplier of the U.S. market. These products are very labor-intensive. It should be noted that brassieres from China are under import controls of the U.S. Department of Commerce, resulting from an application of the special China WTO accession safeguard. Therefore, these estimates likely overstate gains in this category.

Estimated Effects on Employment

A 10-percent appreciation of the *renminbi* would support 2,732 jobs in the Dominican Republic's free zones above those that are projected in the baseline post-quota/post-devaluation environment.

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[38] Under the U.S. and EU quota systems, foreign governments distribute the rights to export to these markets. In many countries, including China, producers bid or purchase the right to export under the quota system, thereby increasing the export price of the garment by the cost of the quota.

[39] Most countries engage in "dirty" floats of their currencies, preferring to mange the exchange rate within narrow bands of trading values.

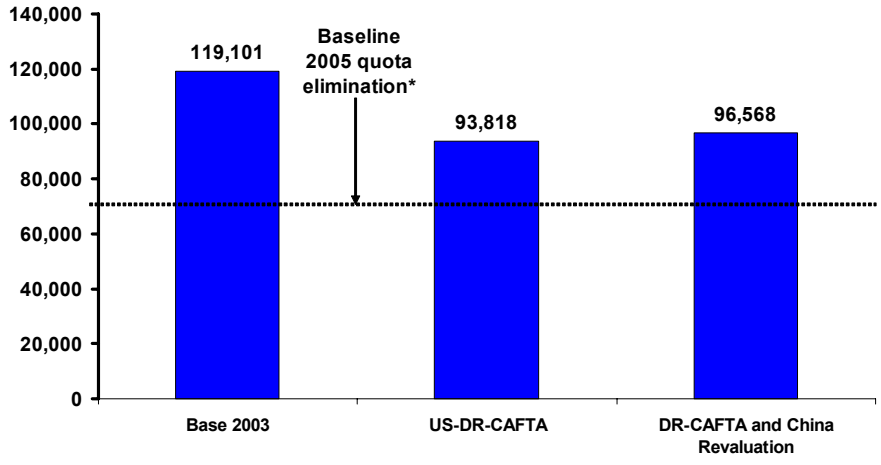
Table 5-2
Projected Impact of 10 Percent Appreciation of Renminbi on U.S. Imports from the Dominican Republic

Product	U.S. Imports from the Dominican Republic (US$ Million)			Impact of 10 Percent Renminbi Appreciation Relative to Baseline 2005	
		2005 (Estimates)			
	2003 Actual	Baseline[a]	With 10 Percent Appreciation of Renminbi	US $ Million	Percent Change
Cotton trousers	670	316	320	4	1
Cotton underwear	312	232	237	5	2
Synthetic trousers	254	157	160	3	2
Cotton knit shirts	203	103	103	0	0
Other synthetic apparel	112	80	82	2	2
Other	407	210	219	9	4
Total affected by quotas	1,958	1,098	1,121	23	2
Total unaffected by quotas	164	148	174	26	18
Total	2,122	1,247	1,296	49	4

[a]*Baseline estimates include the impacts of quota elimination and devaluation*

SOURCE: *Nathan Associates partial equilibrium model.*

Figure 5-1
Impact of US-CAFTA-DR, Quota Phase-out, and the Peso Devaluation on Direct Employment



SOURCE: *Analysis by Nathan Associates.*

6. Recommendations

Trade Capacity Building

Producers interviewed in the course of this study know little about the potential benefits of the US-CAFTA-DR. The agreement's new rules of origin, for example, are somewhat complex and benefiting from them will require that government and industry alike take a proactive approach to exploiting those benefits. And other rules have yet to be implemented. Trade capacity building in government and industry will help ensure that important provisions of the agreement, such as the special cumulation clause, are implemented successfully and that processes for simplifying the system and reducing costs of regional trade are in fact achieved.

Provisions such as the short supply list promise greater availability of fabrics in short commercial supply. But producers and trade associations will need to develop new practices for ensuring their requirements are represented, otherwise the process could be marginalized into an ever-expanding list of niche products, instead of an important strategic advantage for export and employment growth.

New documentation requirements associated with the agreement's rules of origin are still general; details for implementation have yet to be worked out even though the agreement is signed. Producers wanting to minimize the cost of complying with new rules should keep abreast of developments and keep government and industry officials informed of their interests. This could be achieved through consultative groups representing large and small producers alike. Trade associations such as ADOZONA could play an important role in seeking comments and recommendations on these issues.

The special cumulation clause in the US-CAFTA-DR provides a unique opportunity for suppliers of woven apparel to obtain significant reductions in tariff and fabric costs that could boost their sales by an estimated US$148 million. The clause, however, is not automatic. Industry and government officials will need to actively support and encourage the Central American countries, Mexico, and Canada to sign required agreements on transshipping and reciprocal benefits. The parties to the clause will need to pay close attention to the practical

aspects of how these new agreements are implemented or the costs of compliance could quickly erode benefits. Producers will need to find new fabric sources in Canada, Mexico, and the region. Dominican and regional groups should encourage joint marketing and business forums and trade shows. Industry, government, and development groups, such as USAID could assist in these areas.

Energy Costs and Dollar Wages

If left unchecked, the Dominican Republic's skyrocketing energy costs and rising wages, and fluctuating exchange rates will discourage the primary benefit the Dominican Republic hopes the US-CAFTA-DR will yield: new investment. Tying wages to well-defined exchange rate and government revenue targets can help restore prospective investors' confidence. To be competitive, spinning, knitting, and dying operations require reliable and cost-effective energy supplies. Stabilizing the residential energy grid will not only help attract investors but also improve garment workers' productivity. Most important, the peso must be stabilized, a point stressed by many Dominican apparel producers interviewed in the course of this study. Without a stable currency, resolving problems such as energy and wage costs, worker productivity will be difficult.

Diversifying Production and Markets

To mitigate the ill effects of quota elimination, apparel producers in the Dominican Republic can diversify away from products for which they have enjoyed an extraordinarily high margin of preference under the existing quota regime, into items for which the United States has high duty levels and Dominican producers can therefore exploit a relatively high margin of tariff preference. U.S. duties average 17 percent, but peak tariffs exceed 30 percent. Countries accorded tariff preferences, including the Dominican Republic, should exploit this margin of preference, which will remain even in the post-quota world. Producers should also consider shifting to product categories for which tariffs remain high. Average U.S. tariffs in 2003 on knit and woven apparel products, by fiber, are shown in Table 6-1.

Average duties range from 8.9 percent on cotton knit nightwear and pajamas to 32 percent on knit shirts and blouses of manmade fiber. In all cases the MFN duties are substantially higher on products constructed chiefly of manmade fibers. Note that nightwear and pajamas are under a single transformation rule with the US-CAFTA-DR.

Table 6-1
Selected U.S. Apparel Imports and MFN Duty Rates, 2003

Product	Cotton Fiber		Man-made Fiber	
	Imports (US$ Million)	MFN Tariff [%]	Imports (US $ Million)	MFN Tariff [%]
TROUSERS, BREECHES AND SHORTS				
Knit	**1,267.2**	**~15.5**	**937.1**	**28.2**
Woven	**10,115.5**	**16.6**	**2,203.1**	**~28.3**
SHIRTS AND BLOUSES				
Knit	**2,196.0**	**20.0**	**624.5**	**32.0**
Woven	**3,434.9**	**~17.6**	**1,364.5**	**~26.4**
DRESSES				
Knit	**137.3**	**11.5**	**173.0**	**~15.5**
Woven	**220.0**	**8.4**	**708.7**	**16.0**
NIGHTWEAR, BATHROBES AND PAJAMAS				
Knit	**765.3**	**~8.9**	**467.8**	**16.0**
Woven	**365.2**	**~8.9**	**220.7**	**16.0**
COATS, OVERCOATS, CAPES AND WINDBREAKERS				
Knit	**414.1**	**15.9**	**429.8**	**28.2**
Woven	**89.4**	**8.9**	**101.0**	**27.2**
Average\Total	**19,004.9**	**13.2**	**7,230.2**	**23.4**

Note: The symbol "~" indicates average values since there are often small variations in tariffs within product categories that do not amount to more then 5 percent of the average tariff value.

SOURCE: Analysis by Nathan Associates Inc. U.S. Harmonized Tariff Schedule, 2004 – http://USITC.GOV.

The Dominican Republic exports more than US$2 billion in apparel annually to the United States. In 2002, however, it shipped only US$8 million in apparel to the EU--even though it is accorded preferential access to that market under the EU Cotonou agreement for African Caribbean and Pacific Island (ACP) countries. The Dominican Republic has not been able to take advantage of this agreement because its rules of origin only allow the use of fabrics formed in ACP countries and the ACP-Caribbean region has no major textile producers.[40]

[40] The Cotonou agreement includes a provision for cumulating fabric from neighboring non-ACP developing countries: "At the request of the ACP States, materials originating in a neighboring developing country, other than an ACP State, belonging to a coherent geographical entity shall be considered as materials originating in the ACP States when incorporated into a product obtained there. Under certain specific conditions, it shall not be necessary that such materials have undergone sufficient working or processing." Article 6 par.11 Protocol n°1 on origin. However, this provision has never been implemented by the EU for any ACP country and it is unclear what constitutes "a neighboring developing country belonging to a coherent geographical group" for an island nation such as the Dominican Republic.

But opportunities do exist. Most garments (except circular knit garments) are covered by a fabric forward rule of origin. This means that a producer of knit garments in the Dominican Republic should be able to take advantage of the ACP-Cotonou's provisions. More important, the Dominican Republic is being asked to negotiate economic partnership agreements (EPA) with the EU. EPAs are free trade agreements requiring reciprocal concessions and negotiations. The Dominican Republic, therefore, should have an opportunity to negotiate better access to the EU market under the EPA framework, including cumulation of origin with neighboring countries such as Mexico, which already has a free trade agreement with the EU.

Changing the Value Chain

The elimination of U.S. and EU textile and apparel quotas on January 1, 2005 will bring to an end nearly 40 years of relative stability in this export-oriented sector. The structure of the industry will change dramatically and soon. Apparel firms will be required to adapt to open competition with Asian apparel producers that offer more services at cheaper prices. The largest firms in the Dominican Republic are already adapting to this new environment by

- Acquiring smaller Dominican firms to complement and broaden services for retailers and buyers;
- Developing full-package capabilities including trade financing, fabric sourcing, and pattern development rarely offered by traditional sewing operations; and
- Integrating knit fabric production dying and finishing on or near premises.

These responses are helping these large firms cut costs, improve services, and respond more quickly to market demand.

In contrast, small and medium-sized firms have changed little, mostly reducing costs in their current operational environment. Many of these firms still depend on a few brokers and/or contractors, which leaves them highly exposed to market fluctuations. Producers managing only the cut-and-sew aspects of apparel production can do little to reduce costs; more than half the value of a garment is determined by fabrics, usually sourced by brokers. The full-package producer, managing the whole value chain, including fabric and trim sourcing, has far more opportunity to squeeze costs from the value chain and control lead times.

Few small and medium-sized producers are prepared to source fabric, develop patterns, or provide other value-added services that buyers are likely to require in a quota-free world. Offering such services requires mastering certain financial instruments and reducing risks inherent to investments. Expecting these firms to take these steps independently may not be reasonable, but developing partnerships (mergers and acquisitions) is the next best alternative to a failing business. Many firms may either be unaware or too busy with day to day business to fully make the strategic changes that will soon be required.

Recognizing that it is usually more difficult to create than to maintain employment, USAID can assist small and medium-sized apparel firms adjust to the new trade environment by providing

- Market knowledge about buyers and the services they will require in a quota-free environment (e.g., a mentoring program with a representative from a large apparel retailer);
- Seminars on Dominican and international financial instruments;
- Seminars on exploiting the greatest advantages of the Dominican Republic (e.g., proximity to the U.S. market, rapid and flexible production processes, the potential DR-CAFTA agreement); and
- Seminars to encourage dialogue and present ideas on accelerating integration and partnerships within the Dominican industry [e.g., leveraging existing textile capacities (knitting) in larger companies (contract knitting and finishing) and consolidating operations to lower overhead].

Appendix A. Single Transformation Benefits

The FTA's single transformation provision for certain woven garments such as brassieres, boxer shorts, and pajamas is expected to affect about 7 percent of the Dominican Republic's exports, or US$143 million (Table A-1). Nearly 90 percent of these exports are brassieres now subject to a minimal MFN duty (0.4 percent) and already qualify for duty-free treatment under the CBTPA. But substantial duty savings—averaging between 9 and 12 percent—can be expected for dresses and pajamas under the FTA. The average duty savings on other products will be a modest 1.5 percent. These benefits are exclusive of any savings obtainable from a broader selection of fabrics that could be sourced globally.[41]

Table A-1
U.S. Imports from US-CAFTA-DR Region of Selected Products with a Single Transformation Rule of Origin, 2003

Country	Brassieres		Pajamas		Underwear		Dresses		Total	
	Million US$	Duty (%)	Million US$	Duty (%)	Million US$	Duty (%)	Million US$	Duty (%)	Million US$	Duty (%)
Dominican Republic	126.1	0.4	12.6	9.2	1.6	5.0	2.9	12.0	143.2	1.5
Costa Rica	14.7	1.4	0.0	0.0	23.1	5.9	0.7	3.1	38.5	4.1
Guatemala	1.5	5.1	1.1	4.8	5.0	5.6	21.5	13.5	29.1	11.4
Honduras	165.9	0.4	9.7	10.3	17.2	5.8	0.3	3.3	193.1	1.4
Nicaragua	0.6	0.9	17.5	7.0	1.5	8.7	0.1	5.2	19.7	7.0
El Salvador	29.4	0.2	19.5	5.0	35.5	6.2	23.1	10.4	107.5	5.2
Total	338.2	0.5	60.5	7.3	83.9	6.0	48.5	11.7	531.1	3.1

SOURCE: Analysis by Nathan Associates Inc. Brassieres (6212.10), boxers and pajamas (found in 6207 through 6208) and certain women's dresses found in 6204.42 through 6204.44. Trade data and US applied duties (actual duty paid which are lower than MFN rates due to CBTPA benefits) from the US Department of Commerce.

[41] The CBTPA allowed for 25 percent of the fabric in brassieres to be sourced from outside the region.

Appendix B. Potential Benefits of Cumulation Clause

Table B-1 presents estimates of the potential benefits of the special cumulation clause for the Dominican Republic and Central American region. The cumulation clause will provide access for 100 million square meter equivalents or an estimated US$410 million of eligible apparel made from Mexican and Canadian woven fabrics. Since the Dominican Republic is by far the largest exporter of products made from woven fabrics, it could be the biggest beneficiary. If each country is allocated a share of the estimated US$410 million cumulation benefit according to their current share of trade, the Dominican Republic could expect potential trade volumes of US$148 million dollars from this provision.

For all countries, the value of U.S. imports now subject to the full U.S. duty because they contain non-U.S. fabric are more than double the value of the estimated cumulation benefits. Therefore, switching to Mexican and Canadian fabrics for these garments would be equivalent to eliminating MFN tariffs on these garments (which average 17 percent). And switching to lower-cost Mexican fabrics could result in reduced garment costs equivalent to a tariff of nearly 4 percent on the final garment.

The significance of these tariff and cost benefits from sourcing fabrics from Mexico or Canada are unlikely to be undermined by the new costs of complying with anti-transshipment requirements under FTA rules for the special cumulation rule. But if the sole benefit of sourcing Mexican fabric is cost (as would be the case when switching from U.S. to Mexican fabrics), an efficient, low-cost anti-transshipment regime will be critical to maintaining the cost advantage of cumulation under the FTA.

Table B-1
Estimated Value of CAFTA Special Cumulation Clause for Woven Products, 2003 (US$ Millions and Millions of Square Meter Equivalents)

Country	US Imports of Selected Woven Garments, 2003			Est. Value of Cumulation 2003[a]	Current Value of Dutiable US Imports	Est. Benefits of Cumulation	
	Sq. Meter Equiv.	Dollars	Percent			Average MFN Tariff (%)	Est. Tariff Equivalent of Mexican Fabric (%) [b]
Dominican Republic	211	1,088	36.0	148	214	16.4	3.8
Costa Rica	58	243	8.0	33	32	8.6	3.8
Guatemala	159	657	21.8	89	301	19.5	3.8
Honduras	131	421	13.9	57	54	13.4	3.8
Nicaragua	84	317	10.5	43	195	15.9	3.8
El Salvador	94	294	9.7	40	142	15.7	3.8
Total	735	3,019	100.0	410	938	16.5	3.8
Cumulation Cap	100	410	13.6	410	--	16.5	3.8

[a] *Each country is allocated a proportion of the regional cap according to its 2003 exports of qualifying products to the US. Based on 2003 prices for qualifying apparel.*

[b] *Estimates of tariff equivalent of sourcing Canadian or Mexican fabric are based on an approximation of an eight percent reduction in fabric costs, exclusive of added DR/CAFTA compliance costs.*

SOURCE: *Analysis by Nathan Associates Inc. US Imports of apparel from chapter HS chapter 62 excluding garments covered under single transformation provision. Including brassieres (6212.10), boxers and pajamas (found in 6207 through 6208) and certain women's dresses found in 6204.42 through 6204.44).*

Appendix C. Short Supply List

	Original Description	Workable Description	Textile HS Codes	Apparel Products	Apparel HS Codes	Opportunity for Dominican Republic
1	Velveteen fabrics classified in subheading 5801.23.	Velveteen fabrics, velours..	5801.23	Ladies' dresses, waistcoats, eveningwear, etc. Upholstery	6202 6203 6204	
2	Corduroy fabrics classified in subheading 5801.22 containing 85% or more by weight of cotton and containing more than 7.5 wales per cm.	Lightweight corduroy fabrics Corduroy shirts with relatively narrow wales, normally 7 per cm. or higher. Corduroy has been more commonly used for pants than shirts. Wider wales are more common for jackets and pants. The ribbage per cm. could vary from 1.5 to 7, with the traditional "standard" falling somewhere between 4 and 5.	5801.22.10	Mainly for shirts and trousers, but possibly also for jackets, suits, skirts, dresses, coats, capes, cloaks, anoraks, windbreakers, handbags, baseball and other caps.	6203 6204 6205 6206	Niche product because of fine ribbing. Reasonable market opportunities in higher qualities. Could be required as part of a broader range.
3	Fabrics classified in subheadings 5111.11 or 5111.19, if hand-woven, with a loom width of less than 76 centimeter, woven in the United Kingdom in accordance with the rules and regulations of the Harris Tweed Association, Ltd., and so certified by the Association.	Harris Tweed Fabrics (woolen fabrics) <76 cm wide	5111.11 5111.19	Skirts, kilts, jackets, suits Hats, socks, handbags, cushions, pet beds	6203 6204	Small-volume production requiring specific design and technical input
4	Fabrics classified in subheading 5112.30, weighing not more than 340 grams per square meter, containing wool, not less than 20 percent by weight of fine animal hair and not less than 15 percent by weight of man-made staple fibers.	Worsted fabrics :- >20% wool - mixed with manmade staple fibers >15% - <340 grs/m²	5112.30	A. Tapestry , upholstery B. Worsted suits, jackets, trousers, ensembles	6203 6204	Upholstery: Specialty products, usually close to furniture manufacturing or refurbishing business which are close to end consumer Apparel
5	Batiste fabrics classified in subheadings 5513.11 or 5513.21, of square construction, of single yarns exceeding 76 metric count, containing between 60 and 70 warp ends and filling picks per square centimeter, of a weight not exceeding 110 grams per square meter.	Sheer finely woven polyester staple fabric, grey bleached or piece dyed	5513.11 5513.21	Blouses, dresses, lingerie	6204 6206 6208	Regular used lightweight fabric, can also be printed after bleaching

	Original Description	Workable Description	Textile HS Codes	Apparel Products	Apparel HS Codes	Opportunity for Dominican Republic
6	Fabrics classified in subheadings 5208.21, 5208.22, 5208.29, 5208.31, 5208.32, 5208.39, 5208.41, 5208.42, 5208.49, 5208.51, 5208.52 or 5208.59, of average yarn number exceeding 135 metric.	Non- grey lightweight cotton fabric (bleached, piece dyed, yarn-dyed, colorwoven)	5208.21, 5208.22, 5208.29, 5208.31, 5208.32, 5208.39, 5208.41, 5208.42, 5208.49, 5208.51, 5208.52 5208.59	Men's and boys' shirts Women's and girls' blouses, nightwear, dresses Handkerchiefs Bedlinen, etc.	6204 6205 6206 6207 6208 6213 6302	Top-range lightweight cotton fabrics
7	Fabrics classified in subheadings 5513.11 or 5513.21, not of square construction, containing more than 70 warp ends and filling picks per square centimeter, of average yarn number exceeding 70 metric.	Polyester staple/cotton fabrics, plain weave, grey, bleached or piece dyed	5513.11 5513.21	Men's and boys' shirts Women's and girls' blouses, nightwear, dresses Bedlinen, etc.	6205 6206 6207 6208 6302	Medium-range lightweight pes/cotton fabrics
8	Fabrics classified in subheadings 5210.21 or 5210.31, not of square construction, containing more than 70 warp ends and filling picks per square centimeter, of average yarn number exceeding 70 metric.	Cotton-rich fabrics, plain weave, grey, bleached or piece dyed	5210.21 5210.31	Men's and boys' shirts Women's and girls' blouses, nightwear, dresses Bedlinen, etc.	6205 6206 6207 6208 6302	Medium-range lightweight cotton-rich fabrics
9	Fabrics classified in subheadings 5208.22 or 5208.32, not of square construction, containing more than 75 warp ends and filling picks per square centimeter, of average yarn number exceeding 65 metric.	Medium-weight cotton woven fabric, plain weave, bleached or dyed	5208.22 5208.32	Men's and boys' shirts Women's and girls' blouses, nightwear, dresses Handkerchiefs Bedlinen, etc.	6204 6205 6206 6207 6208 6213 6302	Medium-range lightweight cotton fabrics
10	Fabrics classified in subheadings 5407.81, 5407.82 or 5407.83, weighing less than 170 grams per square meter, having a dobby weave created by a dobby attachment.	Synthetic filament/cotton blended fabrics, grey bleached or piece dyed (excl. printed)	5407.81 5407.82 5407.83	Women's blouses and nightwear	6206 6208	Medium-range average weight polyester/cotton fabrics

	Original Description	Workable Description	Textile HS Codes	Apparel Products	Apparel HS Codes	Opportunity for Dominican Republic
11	Fabrics classified in subheadings 5208.42 or 5208.49, not of square construction, containing more than 85 warp ends and filling picks per square centimeter, of average yarn number exceeding 85 metric.	Fine colour-woven cotton fabric, various weaves, 100-200 grs/m²	5208.42 5208.49	Men's shirts Women's blouses Nightwear	6205 6206 6207 6208	Medium-range lightweight cotton shirting fabric
12	Fabrics classified in subheading 5208.51, of square construction, containing more than 75 warp ends and filling picks per square centimeter, made with single yarns, of average yarn number equal to or exceeding 95 metric	Fine printed cotton fabric, various weaves, <200 grs/m²	5208.51	Men's shirts Women's blouses Nightwear	6205 6206 6207 6208	Medium-range lightweight printed cotton shirting fabric
13	Fabrics classified in subheading 5208.41, of square construction, with a gingham pattern, containing more than 85 warp ends and filling picks per square centimeter, made with single yarns, of average yarn number equal to or exceeding 95 metric, and characterized by a check effect produced by the variation in color of the yarns in the warp and filling.	Cotton color-woven plain weave gingham	5208.41	School uniforms Tablecloths Bedlinen	6203 6204 6302	Traditional fabric for end-uses specified
14	Fabrics classified in subheading 5208.41, with the warp colored with vegetable dyes, and the filling yarns white or colored with vegetable dyes, of average yarn number exceeding 65 metric.	Cotton color-woven medium-weight fabric		Women's blouses and women's and girls nightwear (dresses, pajamas) Men's and boys' nightshirts and pajamas	6206 6207 6208	Medium-weight yarn dyed fabric
15	Circular knit fabric, wholly of cotton yarns, exceeding 100 metric number per single yarn, classified in subheadings 6006.21.aa, 6006.22.aa, 6006.23.aa, and 6006.24.aa.	Ultra-fine circular knitted fabrics , including transparent fabrics	6006.21. 6006.22. 6006.23. 6006.24	Women's blouses, nightwear, briefs.	6104 6205 6206 6107 6108 6109 6111	Niche product

	Original Description	Workable Description	Textile HS Codes	Apparel Products	Apparel HS Codes	Opportunity for Dominican Republic
16	100% polyester crushed panne velour fabric of circular knit construction classified in subheading 6001.92.aa.	Polyester velour knitted fabric	6001.92	Home furnishing Dressing gowns, sleepwear, loungewear,…	6101 6102 6103 6104 6110 6111 6116 6117 6301	Medium- to heavyweight fabric traditionally used in upholstery
17	Viscose rayon yarns classified in subheadings 5403.31 and 5403.32.	Filament viscose yarns	5403.31 5403.32	Knitted : outerwear Woven : Lining, pocketing, women's dresses, leisurewear, …	6103 6104 6201 6202 6203 6204	Limited opportunity since needs weaving, dyeing, finishing,
18	Yarn of combed cashmere, combed cashmere blends, or combed camel hair classified in subheading 5108.20.aa.	Camel and cashmere yarns	5108.20	Mostly weaving : suits, coats, jackets, shawls, … Possibly knitting : jerseys, pullovers, shawls…	6110 6117 6201 6202 6203 6204 6214	Small volume production requiring specific design and technical input

	Original Description	Workable Description	Textile HS Codes	Apparel Products	Apparel HS Codes	Opportunity for Dominican Republic
19	Two elastomeric fabrics used in waistbands, classified in subheading 5903.90.bb: (1) a knitted outer-fusible material with a fold line that is knitted into the fabric. The fabric is a 45 millimeter wide base substrate, knitted in narrow width, synthetic fiber based (made of 49% polyester/43% elastomeric filament/8% nylon with a weight of 4.4 ounces, a 110/110 stretch, and a dull yarn), stretch elastomeric material with an adhesive (thermoplastic resin) coating. The 45 millimeter width is divided as follows: 34 millimeter solid, followed by a 3 millimeter seam allowing it to fold over, followed by 8 millimeter of solid; (2) a knitted inner-fusible material with an adhesive (thermoplastic resin) coating that is applied after going through a finishing process to remove all shrinkage from the product. The fabric is a 40 millimeter synthetic fiber based stretch elastomeric fusible consisting of 80% nylon type 6 and 20% elastomeric filament with a weight of 4.4 ounces, a 110/110 stretch, and a dull yarn.	Waistbands	5903.90	Waistbands for sports-shorts trousers, windbreakers, skirts, track suits, basketball-shorts, bomber jackets, anoraks, etc.	6101 6102 6103 6104 6112 6201 6202 6203 6204 6211	Required as accessory in making-up
20	Fabrics classified in subheadings 5210.21 or 5210.31, not of square construction, containing more than 70 warp ends and filling picks per square centimeter, of average yarn number exceeding 135 metric.	Very light cotton-rich fabrics, plain weave, grey, bleached or piecedyed	5210.21 5210.31	Men's and boys' shirts Women's and girls' blouses, nightwear, dresses Bedlinen, etc	6205 6206 6207 6208 6302	Top-range superlight cotton-rich fabrics
21	Fabrics classified in subheadings 5208.22 or 5208.32, not of square construction, containing more than 75 warp ends and filling picks per square centimeter, of average yarn number exceeding 135 metric.	Very lightweight cotton woven fabric, plain weave, bleached or dyed	5208.22 5208.32	Men's and boys' shirts Women's and girls' blouses, nightwear, dresses Handkerchiefs Bedlinen, etc	6204 6205 6206 6207 6208 6213 6302	Top range superweight cotton fabrics
22	Fabrics classified in subheadings 5407.81, 5407.82, or 5407.83, weighing less than 170 grams per square meter, having a dobby weave created by a dobby attachment of average yarn number exceeding 135 metric.	Superlight synthetic filament/cotton blended fabrics, grey bleached or piece dyed (excl. printed)	5407.81 5407.82 5407.83	Women's blouses and nightwear	6206 6208	Top range superlight polyester/cotton fabrics

	Original Description	Workable Description	Textile HS Codes	Apparel Products	Apparel HS Codes	Opportunity for Dominican Republic
23	Cuprammonium rayon filament yarn classified in subheading 5403.39.	Woven lining fabric		Dress suits, jackets, dresses, trousers, military uniforms,…	6201 6202 6203 6204	High quality products requiring specific technical know-how in weaving, dyeing and finishing Mostly used in formalwear.
24	Fabrics classified in subheadings 5208.42 or 5208.49, not of square construction, containing more than 85 warp ends and filling picks per square centimeter, of average yarn number exceeding 85 metric, or average yarn number exceeding 135 metric if the fabric is Oxford construction.	Fine colour-woven cotton fabric, various weaves, 100-200 grs/m² Very fine oxford shirting fabric	5208.42 5208.49	A. Men's shirts Women's blouses Nightwear B. Men's shirts	6205 6206 6207 6208	Top-range lightweight cotton shirting fabric
25	Single ring-spun yarn of yarn numbers 51 and 85 metric, containing 50 percent or more, but less than 85 percent, by weight of 0.9 denier or finer micro modal fiber, mixed solely with U.S. origin extra long pima cotton, classified in subheading 5510.30.	Specialty blended micro-modal.US cotton yarn	5510.30	Women's and girls knit blouses, lingerie and underwear	6106 6108 6208 6212	Niche product
26	Tow of viscose rayon classified in heading 55.02.	Viscose filament tow used for spinning staple yarn	55.02	Women's and girls outerwear	62	Limited opportunity since needs specialized spinning, weaving, dyeing, finishing.
27	100 percent cotton woven flannel fabrics, single ring-spun yarns of different colors, of yarn numbers 21 through 36 metric, classified in subheading 5208.43.00, of 2 x 2 twill weave construction, weighing not more than 200 grams per square meter.	Colorwoven cotton flannel twill fabric (excl. 2/1 twill)	5208.43.00	Skirts, trousers, dresses, lumberjack shirts, …	6203 6204 6205	Regular fabric for various end-uses

	Original Description	Workable Description	Textile HS Codes	Apparel Products	Apparel HS Codes	Opportunity for Dominican Republic
28	Fabrics classified in the following subheadings of average yarn number exceeding 93 metric: 5208.21.aa, 5208.22.aa, 5208.29.aa, 5208.31.aa, 5208.32.aa, 5208.39.aa, 5208.41.aa, 5208.42.aa, 5208.49.aa, 5208.51.aa, 5208.52.aa, 5208.59.aa, 5210.21.aa, 5210.29.aa, 5210.31.aa, 5210.39.aa, 5210.41.aa, 5210.49.aa, 5210.51.aa, and 5210.59.aa.	Lightweight cotton and cotton blend fabric , incl. lawn, voile, poplin,… (Excl. grey)	5208.21. 5208.22, 5208.29, 5208.31 5208.32 5208.39 5208.41 5208.42 5208.49 5208.51 5208.52 5208.59 5210.21 5210.29 5210.31 5210.39 5210.41 5210.49 5210.51 5210.59	Men's and boys' shirts Women's and girls' blouses, nightwear, dresses Handkerchiefs Bedlinen, etc.	6205 6206 6207 6208 6113 6302	Medium-range lightweight cotton fabrics
29	Certain yarns of carded cashmere or of carded camel hair, classified in subheading 5108.10.aa, used to produce woven fabrics classified in subheadings 5111.11 and 5111.19.	Carded cashmere, angora yarn	5108.10	Knitting : jerseys, pullovers, shawls… Weaving : coats, jackets, …	6110 6117 6201 6202 6203 6204 6214	Small volume production requiring specific design and technical input and intermediate processing
30	Acid-dyeable acrylic tow classified in subheading 5501.30, for production of yarn classified in subheading 5509.31.	Acrylic filament tow used for spinning staple yarn	5501.30	Sweaters, blankets, linings of boots, jackets, etc.	6110 6301	Limited opportunity since needs specialized spinning, weaving, dyeing, finishing.

	Original Description	Workable Description	Textile HS Codes	Apparel Products	Apparel HS Codes	Opportunity for Dominican Republic
31	Untextured flat yarns of nylon classified in subheading 5402.41.aa. The yarns are described as: (1) of nylon, 7 denier/5 filament nylon 66 untextured (flat) semi-dull yarn; multifilament, untwisted or with a twist not exceeding 50 turns/meter; (2) of nylon, 10 denier/7 filament nylon 66 untextured (flat) semi-dull yarn; multifilament, untwisted or with a twist not exceeding 50 turns/meter; or (3) of nylon, 12 denier/5 filament nylon 66 untextured (flat) semi-dull yarn; multifilament, untwisted or with a twist not exceeding 50 turns/meter.	Nylon yarn for hosiery (gimped yarns)	5402.41	Sheer hosiery and tights	Women's hosiery 6115	Opportunity for range extension of existing producer
32	Woven fabric classified in subheading 5515.13.aa, combed of polyester staple fibers mixed with wool, and containing less than 36% by weight of wool.	Woven poly/wool blend fabric	5515.13	Jackets, trousers, ensembles, suits, …	6201 6202 6203 6204	Regular formalwear fabric
33	Knitted fabric of 85% spun silk/15% wool (210 grams per square meter), classified in subheading 6006.90.10.	Silk/wool knitted fabric	6006.90.10	Women's jumpers, sweaters, evening suits, etc.	6107 6110	High-class women's wear fabric
34	Woven fabrics classified in subheading 5512.99, containing 100% by weight of synthetic staple fibers; not of square construction; of average yarn number exceeding 55 metric.	Synthetic staple fabric (excl. polyester, acrylic)	5512.99	Raincoats, ski apparel, windbreakers, sportswear, …	6201 6202 6211	
35	Woven fabrics classified in subheadings 5512.21 or 5512.29, of 100% acrylic fibers, of average yarn number exceeding 55 metric.	Woven acrylic staple fabric	5512.21 5512.29	Blankets, lining of boots, jackets, etc.	6203 6204 6301	Limited opportunity. Possibly for footwear supply.
36	Rayon filament sewing thread, classified in subheading 5401.20.	Viscose filament sewing thread	5401.20	All made-up goods	Chapters 61, 62, 63	Required as accessory in making-up
37	Poplin, ring spun, woven fabric of 97% cotton, 3% Lycra, classified in subheading 5208.32.bb.	Piece dyed cotton poplin fabric	5208.32	Shirts, blouses	6205 6206	Regular light to medium summer outerwear fabric
38	Polyester/Nylon/Spandex Synthetic Tri-blend (74/22/4%) woven fabric classified in subheading 5512.99.aa.	Finished synthetic fabric	5512.99	Lingerie, corsets	6212	Niche product, highly diversifierd

	Original Description	Workable Description	Textile HS Codes	Apparel Products	Apparel HS Codes	Opportunity for Dominican Republic
39	Two-way stretch woven fabric of polyester/rayon/spandex (62/32/6%) classified in subheading 5515.19.aa.	Blended polyester/viscose bi-stretch fabrics	5515.19	Bomber jackets, pant suits, skirts, childrenswear	6201 6202 6203 6204	
40	Two-way stretch woven fabric of polyester/rayon/spandex (71/23/6%) classified in subheading 5515.19.aa.	Blended polyester/viscose bi-stretch fabrics	5515.19	Bomber jackets, pant suits, skirts, childrenswear	6201 6202 6203 6204	
41	Dyed rayon blend (70% rayon/30% polyester) herringbone twill fabric classified in subheading 5516.92 and weighing more than 200 grams per square meter.	Dyed blended poly/viscose fabrics with herringbone pattern	5516.92	Women's shirts, trousers, skirts, … Men's shirts	6202 6204 6205 6206	Opportunity for range extension of existing producer
42	Printed 100% rayon herringbone fabric classified in subheading 5516.14 weighing more than 200 grams per square meter.	Printed viscose fabrics with herringbone pattern	5516.14	Women's shirts, trousers, skirts, … Men's shirts	6202 6204 6205 6206	Opportunity for range extension of existing producer
43	Leaver's Lace classified in subheadings 5804.21 and 5804.29.	Mechanically made lace	5804.21 5804.29	Bras, lingerie, … Sleepwear, nightgowns, wedding dresses,…	6107 6108 6207 6208 6212	Opportunity for range extension of existing producer